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LINDSEY W. INGRAM, JR.
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June 1, 2005

RECEIVED

JUN 01 2005

PUBLIC SERVICE
COMMISSION

Via Hand Delivery

Beth O'Donnell, Esq.
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: Kentucky-American Water Company – Jacobson Park Application

Dear Ms. O'Donnell:

The original and ten copies of the Application of Kentucky-American Water Company seeking Commission approval for a change in ownership of Jacobson Park are enclosed.

As you can see I am sending copies of this letter and the Application to all who were involved in Kentucky-American Water Company's change of control cases.

Very truly yours,

STOLL, KEENON & PARK, LLP

By Lindsey Ingram, Jr.
Lindsey Ingram, Jr.

/s/
Encs.

Ms. Beth O'Donnell
June 1, 2005
Page 2

cc w/enc.: [via U.S. Mail]

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Frankfort, Kentucky 40602-2000

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Lexington, Kentucky 40507

Gerald E. Wuetcher, Esq.
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

RECEIVED
JAN 0 1 2005
PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:)
)
THE PETITION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR APPROVAL)
OF THE TRANSFER OF CONTROL AND)
OWNERSHIP OF JACOBSON PARK)

CASE NO. 2005-00214

APPLICATION

Comes Kentucky-American Water Company (“Kentucky American Water”), by counsel, and states as follows:

1. Kentucky American Water is a corporation organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business in Lexington, Fayette County, Kentucky. It is engaged in the distribution and sale of water to more than 110,000 customers in its Central Division consisting of Bourbon, Clark, Fayette, Harrison, Jessamine, Scott and Woodford Counties and its Northern Division consisting of Gallatin, Grant and Owen Counties and it also serves 88 wastewater customers in its Central Division. The post office address of Kentucky American Water is 2300 Richmond Road, Lexington, Kentucky 40502.

2. Kentucky American Water is the owner of 386.272 acres, more or less, known as Jacobson Park (“Jacobson Park”), which property includes a reservoir used by Kentucky American Water and Lakeside Golf Course, and which is situated on the north side of Richmond Road in Fayette County, Kentucky, having acquired title thereto as follows:

A. By deed dated January, 1923, from Frank Christian and Minnie Christian, his wife, to Lexington Water Company, for

99.3 acres, more or less, and recorded in Deed Book 215 at page 373 in the Fayette County Court Clerk's office;

- B. By deed dated December 26, 1906, from Southern Stave and Tie Company to Lexington Hydraulic & Manufacturing Company, two tracts of which contain 73.7 acres, more or less, and recorded in Deed Book 148 at page 264 in the Fayette County Court Clerk's office;
- C. By deed dated October 26, 1912, from B. E. Allen and Cora H. Allen, his wife, to Lexington Hydraulic & Manufacturing Company, containing 122.3 acres, more or less, and recorded in Deed Book 168 at page 124 in the Fayette County Court Clerk's office;
- D. By deed dated October 18, 1921, from Lew Sharp and Artemisia Sharp, his wife, to Lexington Hydraulic & Manufacturing Company, containing 63.2 acres, more or less, and recorded in Deed Book 208 at page 442 in the Fayette County Court Clerk's office; and
- E. By deed dated January 2, 1922, from John William Denton and Matilda Leer Denton, his wife, to Lexington Hydraulic & Manufacturing Company, for 27.8 acres, more or less, and recorded in Deed Book 209 at page 607 in the Fayette County Court Clerk's office.

3. At various times after the acquisition of the properties listed in paragraph 2 above, the Commonwealth of Kentucky has acquired rights for the widening of Richmond Road by deeds recorded in Deed Book 682 at pages 436 and 438 and in Deed Book 767 at page 20 in the Fayette County Court Clerk's office.

4. On March 28, 1968, Lexington Water Company, now Kentucky-American Water Company, as successor to all of the rights of Lexington Hydraulic & Manufacturing Company leased the 386.272 acres, more or less, Jacobson Park, to Fayette County and the city of Lexington by a Lease Agreement ("Lease") recorded in Deed Book 946 at page 82 in the Fayette County Court Clerk's office.

5. On October 1, 1968, Fayette County assigned to the city of Lexington, its successors and assigns, all of its right, title and interest in and to the property subject to the Lease dated March 28, 1968. A copy of the Lease and partial Lease Assignment are attached hereto as Exhibit 1.

6. On October 16, 1991, the Lexington Fayette County Government, (“LFUCG”), as successor to the city of Lexington and Fayette County, exercised its option and right to renew the Lease to provide for termination of the Lease on February 28, 2018. A copy of the Notice of Renewal is attached hereto as Exhibit 2.

7. On May 16, 2005, Kentucky American Water and LFUCG agreed to and executed an amendment to the Lease. A copy of the amendment (“Lease Amendment”) is attached hereto as Exhibit 3.

8. Subsequent to Orders dated December 20, 2002, and May 30, 2002, in Cases No. 2002-00317 and 2002-00018 before the Public Service Commission, Kentucky American Water agreed that it would obtain Public Service Commission approval prior to the transfer of control or ownership of the land upon which Jacobson Park is located.

9. It is in the best interest of Kentucky American Water, its customers, the LFUCG, and the residents of Central Kentucky for the Public Service Commission to approve the transfer of control and ownership of the land upon which Jacobson Park is located pursuant to the terms of the Lease Amendment attached hereto as Exhibit 3. By this Lease Amendment, Kentucky American Water has agreed to cause a deed for Jacobson Park to be delivered to LFUCG, at the earliest, on January 2, 2011. The form of the deed and the escrow agreement authorizing the release of the deed are attached to the Lease Amendment as exhibits. The delivery of this deed is subject to the approval sought by Kentucky American Water in this

proceeding, and, if such approval is not obtained prior to January 2, 2011, the Lease will remain in effect until such approval is obtained. Both the Lease, as amended, and the deed to be delivered to LFUCG preserve the ability of Kentucky American Water to use, as necessary, the reservoir located on the Jacobson Park property for the provision of potable water to Kentucky American Water's customers. The deed further provides that LFUCG shall not engage in any use or activity that constitutes a pollution hazard to the water, lands or facilities maintained by Kentucky American Water within, adjacent to, or nearby the property to be conveyed. The Lease Amendment and the deed attached thereto fully protect the interests of Kentucky American Water's customers and, therefore, approval by the Public Service Commission of the future conveyance of Jacobson Park pursuant to the terms of the Lease Amendment is appropriate.

WHEREFORE, Kentucky American Water asks that the Public Service Commission expeditiously issue an Order approving the transfer of control and ownership of the 386.272 acres, more or less, known as Jacobson Park, pursuant to the terms of the Lease Amendment attached hereto as Exhibit 3.

Respectfully submitted,

KENTUCKY-AMERICAN WATER COMPANY

BY: Lindsey W. Ingram, Jr.
Lindsey W. Ingram, Jr.
Lindsey W. Ingram III
Hanly A. Ingram
Stoll, Keenon & Park, LLP
300 West Vine St., Suite 2100
Lexington, Kentucky 40507
(859) 231-3000

Deed Book 946

page # 82

THIS LEASE AGREEMENT, made and entered into this the 28 day of March, 1968, by and between LEXINGTON WATER COMPANY, a corporation duly organized and existing under and by virtue of the laws of the State of Kentucky, having its principal office and place of business at 167 North Upper Street, Lexington, Kentucky, party of the first part (hereinafter sometimes called "Company"), and FAYETTE COUNTY, a political subdivision of the Commonwealth of Kentucky, and the CITY OF LEXINGTON, a municipal corporation, hereinafter collectively called the, party of the second part (hereinafter sometimes called "Lessee"),

W I T N E S S E T H:

THAT, WHEREAS, the party of the first part is a public utility engaged generally in providing a pure water supply to the City of Lexington and surrounding areas in Fayette County and has been so engaged for a great number of years, and

WHEREAS, in connection with the provision of its service to its service area, Company has heretofore constructed, maintained and operated certain impounding reservoirs located in Fayette County, Kentucky, including a certain impounding reservoir known and designated as Reservoir No. 4 located on U. S. 25 approximately four miles east of the City of Lexington, said Reservoir No. 4 being located both generally north and south of said U. S. 25, and

WHEREAS, Company, in protecting the water shed to said Reservoir No. 4 and the purity and potability of water collected and stored therein, has heretofore acquired and has owned for many years certain farm lands adjacent thereto, including those tracts more particularly described on Exhibit A annexed hereto and made a part hereof, said tracts lying generally north of U. S. 25 and adjacent to said Reservoir No. 4, and

WHEREAS, a great need exists for the establishment and maintenance of a public park and public recreational facilities in the City of Lexington and in Fayette County, Kentucky, within the service area of Company, and the parties hereto have reached an agreement under the terms of which Company will, subject to the terms and conditions of this agreement, lease, let and demise unto the Lessee, the lands described in Exhibit A annexed hereto for the purpose of providing through the facilities of second party a public park and recreational facilities principally for citizens and residents of the City of Lexington and Fayette County, Kentucky,

NOW, THEREFORE, in consideration of the sum of Ten (\$10.00) Dollars cash in hand paid, and other good and valuable considerations, including the covenants and agreements hereinafter set forth, to be kept and performed by the Lessee, its successors and assigns, Company has demised and leased and by these presents does hereby lease, let and demise upon the Lessee, and the Lessee does hereby rent, take and hire, upon

and subject to the terms and conditions hereinafter contained, those certain tracts or parcels of land located generally north of U. S. 25 approximately four miles east of the City of Lexington, containing 386.272 acres, more or less, which lands are more particularly described and bounded as set forth in Exhibit A annexed hereto and made a part hereof, the specific term of said lease and the terms and conditions thereof being as follows, to-wit:

1. TERM: The term of this lease shall be for a period of twenty-five (25) years beginning on the 1st day of March, 1968 and terminating on the 28th day of February, 1993 unless this lease shall be sooner terminated in accord with the further provisions of this agreement, in which event this lease shall be deemed to have expired upon such termination. The Lessee shall have the option and right to renew this lease upon the same terms and conditions for one additional twenty-five (25) year period beginning on the 1st day of March, 1993 and terminating on the 28th day of February, 2018. In the event Lessee desires to exercise its option to renew this lease, Lessee must notify Company of its election to exercise its option to renew by notice in writing delivered to Company in the manner and form hereinafter provided for notices not less than six (6) months prior to the expiration of the original term of this lease.

2. RENTAL: The rental to be paid by Lessee to Company during the term of this lease shall be the sum of Ten (\$10.00) Dollars per year, which sum shall be due and payable on or before the 1st day of March in each year of the term hereof.

3. DEFINITIONS: The term defined in this paragraph shall have the meanings herein specified for all purposes of this lease and of all leases or other instruments supplemental hereto or amendatory hereto, now or hereafter entered into between the parties hereto, unless the context expressly or by necessary implication otherwise requires:

(a) "Demised Premises" shall mean and include all of the land hereby leased to the Lessee, together with the buildings and improvements now thereon or which may hereafter be constructed by Lessee thereon, but excluding all property and property rights specifically excepted from this lease and the Lessee's facilities;

(b) "Lessee's Facilities" shall mean all personal property, buildings or improvements constructed or owned by Lessee and used or intended for use in connection with the recreational activities to be provided by Lessee upon the leased premises;

(c) "Company's Premises" shall mean the land, buildings and improvements thereon and the water area owned by Company in Fayette County not included as a part of the demised premises and all buildings or improvements which may be constructed thereon by Company;

(d) "Reservoir No. 4" shall mean the water area to the high water mark, the dam and all other related facilities constructed or maintained by Company in Fayette County in the general area of the demised premises for the purpose of creating and maintaining a water supply to meet the requirements of its customers in its service area;

(e) "Recreation" or "Recreational" shall mean and include picnicking, hiking, golf and other sports or games (excluding hunting, shooting of firearms or trapping), community art, theater, club and dancing activities and all types of playground activities and, immediately upon the vesting in possession in Lessee hereunder of any rights of any type or description in and to that portion of the water area of Reservoir No. 4 included within the description contained in Exhibit A annexed hereto, said terms shall include boating, fishing and other water sports, provided, however, that in the event boating activities are conducted upon such water, no motor boats of any description shall be permitted.

4. USE OF PREMISES: Lessee agrees that the demised premises have been leased to it and accepted by it solely for the purpose of establishing recreational facilities for the use and benefit of the public in the City of Lexington and in Fayette County, Kentucky, subject only to the following conditions:

(a) The approval of the Company shall be required as to the precise location of each recreational facility before any such facility is constructed. Lessee shall, within 180 days from date of execution of this lease agreement, furnish and submit to Company a proposed master plan for the development of the leased premises for recreational purposes, which development plan shall include a general description of the type, nature and location of recreational facilities to be developed by the Lessee upon the leased premises. No facility shall be constructed upon the leased premises until the Company shall approve in writing the master plan submitted by the Lessee, provided, however, that Company shall notify the Lessee of its approval or rejection of the master plan within ninety (90) days from date of its submission to Company.

(b) After the master plan submitted by Lessee to Company has been approved by Company, Lessee shall give written notice to Company of its intention to proceed with the development or construction of each facility and shall submit to Company a detailed plan and specification for the proposed development and a plat or description of the area to be developed. Company shall have ninety (90) days from the receipt of such plans and specifications

within which to notify Lessee in writing of its approval or rejection of approval of the specific development or construction of such facility. Company shall not unreasonably withhold its approval with respect to any such proposed facility or development.

(c) No permanent residence, overnight motels, trailer parks or other quarters shall be established or permitted except that permanent camp sites for boy scouts, girl scouts or other such organized groups may be established with Company's approval, if adequate toilet and sanitary facilities are installed therewith pursuant to the regulations of the Kentucky State Board of Health and any county or city sanitary or health ordinances or rules and regulations, and except that Lessee may, with the Company's approval, establish one or more caretaker's houses.

(d) No hunting, shooting or firearms or trapping shall be conducted or permitted on the demised premises; nor shall the Lessee sell or permit the sale or use of live fish bait consisting of fish belonging to the carp or rough fish family as defined and specified by the State of Kentucky, stock the waters within the demised premises with any fish belonging to the carp or rough fish

family as so defined, nor shall Lessee permit, upon the water area included within the demised premises, the use of boats having motive power or ice skating of any kind.

(e) No water shall be taken from the reservoir upon or adjacent to the demised premises or streams or tributaries thereto by the Lessee, nor shall Lessee permit any such taking of water, unless the written consent of Company shall have been first obtained. Any water taken with the approval of Company shall be paid for at the rates then in effect as approved by the Kentucky Public Service Commission.

(f) No recreational activities shall be permitted by Lessee on any lands or properties of Company not a part or portion of the demised premises.

(g) Lessee agrees that the sale, distribution or use of alcoholic beverages of any kind on or about the demised premises is prohibited and shall not be permitted.

(h) No use shall be made, nor shall any activity be conducted, upon the demised premises which, in the determination of Company is not compatible with the operation of a water supply facility or may cause any pollution hazard to the water, lands or facilities

maintained by Company within, adjacent to or in the general area of the demised premises. Lessee covenants and agrees that in the event Company shall determine that any facility or activity upon the demised premises constitutes a pollution hazard to the lands, waters or facilities of Company, including the demised premises, Lessee will take immediate action to remove such facility or to cause such activity to be discontinued. In the event such facility has not been removed or such activity discontinued within ten (10) days from date of such notice by Company to Lessee, then and in that event Company shall have the right to immediately cause this lease to be terminated by the delivery or service of a notice of termination upon Lessee, in which event Company shall be entitled to be restored to its former possession of the demised premises and Lessee shall forthwith vacate the same without necessity of further notice or court procedure.

(i) No trees or shrubs shall be cut or otherwise removed from the demised premises without the prior written consent of Company being first obtained with respect thereto.

5. CHARGES: Lessee shall pay when due and, upon demand, exhibit to Company receipts evidencing payment of all of the following charges which, during the term of this lease,

shall be levied, assessed or imposed by any governmental authority or otherwise become due upon or with respect to or in connection with the possession, occupancy, operation, alteration, maintenance, repair and use of the demised premises, the lessee, or the ownership of the demised premises by Company:

Real property taxes and other taxes, assessments and other governmental charges provided for in paragraph (a) below;

All premiums upon insurance provided for in paragraphs 6 and 7 hereinafter contained;

Expenses of occupying, operating, altering, maintaining, supervising, policing, repairing and restoring the demised premises;

Other expenses and charges not excluded by any provision of this lease;

(a) Lessee shall pay all real estate and property taxes caused by or arising out of the exercise by Lessee of any of its rights under this lease. Company will pay all other real estate and personal property taxes assessed against the demised premises. Lessee shall also pay any assessment or governmental charges included but not limited to assessments for public improvements which are assessed, levied, confirmed or imposed upon or in respect of the possession and use of the demised premises by Lessee under this lease, including any increase in the assessment of the demised premises by reason of or in connection with the erection or construction thereon of improvements by Lessee.

(b) If Company shall receive any statement or notice relative to any tax assessment or charge for which Lessee is liable under subparagraph (a) above or declaring any such tax or assessment to be due, Company shall promptly after receipt thereof deliver the same to Lessee and Lessee, upon such receipt of any notice or statement declaring any such tax or assessment to be due, shall promptly forward to Company its check or draft, payable to Company, for the amount of such tax shown to be due.

(c) Anything contained in this lease to the contrary notwithstanding, Lessee shall have the right to contest the amount or validity of any tax included in subparagraph (a) above by appropriate legal proceedings, which proceedings shall be conducted promptly at Lessee's expense and free of all expense to Company; provided, however, that Company shall, at the request of the Lessee, join in any such proceeding mentioned herein or permit such proceeding to be brought in its name but shall not be subjected to any liability for the payment of any costs or expenses in connection therewith and Lessee will indemnify and save harmless the Company from such costs and expenses.

6. LESSEE'S FACILITIES: At any time and from time to time during the term of this lease, Lessee may install, maintain, change, alter and replace on the demised premises such facilities as Lessee may deem necessary or desirable in connection with the recreational uses of the demised premises, subject only to the requirements of this lease and Company's

approval as hereinabove provided. Notwithstanding the fact that Lessee's facilities may be installed in such a manner that, but for the agreement of Company herein contained, the same would form a part of the demised premises, Lessee's facilities shall nevertheless be and remain at all times the property of the Lessee

Lessee may remove all or any part of Lessee's facilities at any time and from time to time during the term of this lease. Lessee shall remove all of Lessee's facilities on or before the date of termination of this lease; provided, however, that if this lease is terminated prior to its full term of 25 years, then Lessee shall have six (6) months after the date of such termination within which to complete said removal unless said facility is a pollution hazard, in which event the same shall be removed immediately. Lessee shall repair all damage to the leased premises caused by construction, installation or removal of the Lessee's facilities. Any of Lessee's facilities not removed upon termination of this lease, as in this paragraph provided, shall be deemed to have been abandoned and the same shall thereupon become the property of Company, unless Company shall by written notice to Lessee require the removal of the same from the demised premises, in which event Lessee shall within a reasonable time after receipt of such notice remove the same, and upon Lessee's failure to do, Company may remove the same and Lessee shall pay to Company the expense of such removal.

Lessee shall be responsible for procuring and paying for all municipal and other governmental permits and authorizations of the various state, county and municipal departments

and governmental subdivisions having jurisdiction necessary or advisable in connection with the construction, maintenance, changes or alterations of Lessee's facilities. Company shall join in the application, at no expense to Company, for such permits or authorizations whenever such action is necessary.

All work done in connection with any of Lessee's facilities shall be done in a good and workmanlike manner and in compliance with restrictions, zoning regulations, statutes and rules and regulations of governmental authorities having jurisdiction and in compliance with the valid and applicable building laws, ordinances, orders, rules and regulations and in further accord with the requirements of all federal, state and municipal authorities. The cost of such work shall be paid or secured so that the demised premises shall be at all times free and clear of all liens for labor and materials supplied or claimed to have been supplied for the construction, maintenance, operation and removal of such facilities upon the demised premises.

Workmen's compensation coverage covering all persons employed in connection with the work and with respect to whom death or bodily injury claims could be asserted against Company, Lessee or the demised premises and general liability insurance for the mutual benefit of Lessee and Company with limits of not less than \$200,000 in the event of bodily injury to any person, not less than \$1,000,000 in the event of bodily injury to any number of persons in any one accident and not less than \$100,000 with respect to damage to property in any

one accident, shall be maintained at all times when any work is in process in connection with Lessee's facilities without cost or expense to Company, and duly authenticated copies of such policies shall be delivered to Company prior to the commencement of any such work.

Company shall not be responsible to the Lessee for any loss or damage occurring to Lessee's facilities or the demised premises.

7. INSURANCE: During the term of this lease, Lessee shall at its sole cost and expense keep the demised premises and the Lessee's facilities insured for the benefit of Company and Lessee, as their interest may appear, against loss or damage by fire and other risks now or hereafter embraced by "extended coverage" in such amounts as Company and Lessee may from time to time mutually agree upon. Any loss under any policy of insurance issued in accord with this paragraph shall be payable to Lessee and Company as their interest may appear.

During the term of this lease, Lessee will indemnify and save Company harmless against and from any and all claims, liability, damages, losses, suits, proceedings and judgments and expenses connected therewith, including court costs and attorneys' fees, for damage to any property of Company, of Lessee or of any third person as well as for injuries to any person, including death, in any way arising out of or connected with or caused by the demised premises, leased facilities or activities permitted upon the demised premises or facilities

or by any person utilizing such facilities, whether occasioned by the negligence of the Company, its agents, its employees or otherwise. As an incident to the aforementioned indemnity, Lessee shall, during the term of this lease, at its sole cost and expense, maintain public liability insurance, on forms and in companies reasonably satisfactory to Company, against claims for personal injury, death or property damage occurring upon, in or about the demised premises, such insurance to afford protection to the limit of not less than \$300,000 in respect to injuries or death to a single person and not less than \$1,000,000 in respect to any one accident, and to the limit of not less than \$100,000 in respect to property damage for any one accident, but the providing of such insurance shall not relieve Lessee of its primary liability hereunder to so indemnify and save Company harmless under the indemnity agreements herein, Company may, at its option and by notice in writing to Lessee, require such increase in the limits of liability of such insurance at any time during the term of this Lease, and within thirty (30) days of receipt of such notice, Lessee shall secure such increased limits. Policies for such insurance shall be for the mutual benefit of Company and Lessee, as their interest may appear.

Lessee shall procure renewals of all insurance policies not less than ten (10) days before the expiration thereof and all policies of insurance executed pursuant to the provisions of this paragraph shall contain an agreement by the insurer that such policy shall not be cancelled without at least ten (10) days prior written notice to Company.

Prior to the beginning of the term of this lease and at all times thereafter, Lessee shall cause to be furnished to Company copies of all policies of insurance procured and furnished

by Lessee under the terms and provisions of this paragraph.

8. MAINTENANCE AND POLICING OF PREMISES: During the term of this lease, Lessee shall at its own cost and expense, keep and maintain the demised premises and Lessee's facilities in good order and in a neat, clean and safe condition, and will not create or permit to continue any condition on the demised premises or Lessee's facilities which shall, in the opinion of Company, be hazardous to the reservoirs maintained by Company or the water therein and its use for public water supply purposes.

Lessee shall at all times during the term of this lease, to the satisfaction of Company, supervise and police the use of the demised premises for the purpose of insuring compliance with the recreational use restrictions contained in this lease, maintaining law and order and preventing disturbances, rowdyism and activities which Company may deem a nuisance, preventing damage to or trespass upon the demised premises, and insuring the continued maintenance of the demised premises (including all fencing, interior and exterior, and all improvements now located thereon) and Lessee's facilities in a neat, clean and safe condition. Lessee shall preserve and protect the reservoirs of Company from pollution or other injury hazardous to its use for water supply purposes.

Company and its agents shall have the right to inspect the demised premises and lease facilities and records at all reasonable times for the purpose of insuring the compliance with the provisions of this paragraph and Company shall have the power to require Lessee to take any action to remedy conditions or to discontinue or change any use, practice,

condition or rule deemed by Company to be unsafe, undesirable or in violation of Lessee's duties and obligations under this paragraph. Upon the failure of Lessee to take such action, Company may, at its option, either enter upon the demised premises and take the appropriate action, in which event Lessee shall immediately upon demand pay Company reasonable costs and expenses in connection therewith, or, at its option, cancel and terminate this lease forthwith and retake possession of the demised premises, in which event Lessee shall surrender and deliver Company to its former possession without necessity of further notice. Company shall be under no duty to make such inspections or to require any such discontinuance or change.

Company shall not be required to furnish any services or utilities or make any repairs or alterations in or to the demised premises, Lessee hereby assuming the full and sole responsibility for the condition, operation, repair, replacement, maintenance and management of the demised premises, including the obligation to comply with and to maintain the demised premises in compliance with this lease, all laws and all requirements of all governmental authorities applicable to the demised premises and to the use thereof, and all requirements of the insurance companies with which Lessee maintains insurance required by this lease.

9. DAMAGE OR DESTRUCTION: In event of damage to or destruction of the demised premises or Lessee's facilities by fire or otherwise during the term of this lease, Lessee shall promptly at its sole cost and expense repair, restore and rebuild the same as nearly as possible to the condition such were in immediately prior to said damage or destruction or, in the case of Lessee's facilities, with such changes or

alterations as may be made at Company's election and in conformity with this lease, provided, however, that Lessee may elect not to rebuild Lessee's facilities so long as the property covered by said facilities is returned to its original condition as of the date of execution of this lease. Terms and provisions of this lease with respect to construction of Lessee's facilities upon the demised premises shall be applicable to work required to be done under this paragraph. All insurance money recovered by Company on account of such damage or destruction shall be applied by Company first to the repair and restoration of the demised premises. If within sixty (60) days from date of such damage or destruction Lessee has not begun to comply with the provisions of this paragraph relating to the demised premises, or, having commenced has not proceeded with due diligence, Company may, after ten (10) days written notice to Lessee, enter upon the premises and proceed with such work and Lessee shall, upon demand from Company, pay to Company the cost of such work.

10. CONDEMNATION OR SALE: If during the term of this lease the whole or any part of the demised premises shall be taken by condemnation or otherwise as a result of the exercise of the power of eminent domain, Company shall be entitled to and shall receive the total amount of any award made with respect to the demised premises or the portion thereof so taken, Lessee hereby waiving in favor of Company all claims with respect to its leasehold interest, costs of removing

Lessee's facilities and consequential or other damages excepting only the value of Lessee's facilities actually taken by said condemnation. Company shall pay over to the Lessee only the amount of said award, if any, specifically made with respect to the value of Lessee's facilities or any portion thereof taken. If, and to the extent that, any portion of the award shall be made to the Lessee or to any person claiming through or under the Lessee, the Lessee hereby irrevocably assigns to Company all of the right, title and interest of the Lessee and of any such person in and to any and all such awards.

If during the term of this lease, the whole or substantially the whole of the demised premises shall be sold to governmental authorities or taken by condemnation or otherwise as a result of the exercise of the power of eminent domain (said sale or condemnation to include a sale or condemnation of a substantial portion of the water supply, treatment and distribution properties of the Company), this lease and all right, title and interest of the Lessee hereunder shall cease and terminate as of the date of vesting of title to the demised premises in the purchasing or condemning governmental authority, or the date upon which said governmental authority shall have the right to possession of the demised premises, whichever shall be the earlier date.

If during the term of this lease, a part or portion of the demised premises shall be so taken or condemned and said partial taking does not interfere with the continued recreational use by Lessee of the remaining portion of the

demised premises, then this lease shall continue as to the
remaining portions of the demised premises but shall
terminate as to the portion so condemned and Company shall in
no way be liable or obligated to Lessee for such partial taking,
except as it may be obligated to pay over some portion of the
award to Lessee for the value of Lessee's facilities actually
taken in accord with the provisions hereinabove contained.

If during the term of this lease the whole or any
part of the demised premises shall be taken or condemned by
a competent authority for its temporary use or occupancy or
for a limited period, this lease shall not terminate or be
terminated by reason thereof, except only to the extent that
the Lessee may be prevented from using the demised premises
in performing or observing all of its obligations hereunder
and Company shall have no obligations with respect to the
Lessee on account of such temporary condemnation, except
for its obligations as hereinabove provided, to pay over
to Lessee the amount of any award made for such taking
specifically attributed to the temporary restriction upon
the use of Lessee's facilities.

Notwithstanding all other provisions of this
lease, however, Company shall have during the term of this
lease the absolute right to use any portion of the demised
premises which Company deems necessary for the installation,
construction, operation, repair, renewal or replacement of
its mains, pumps, valves, pole lines and other operating

facilities, provided, however, that in event such facilities are so located as to damage or destroy then existing facilities of the Lessee, Company shall repair or replace such facilities of the Lessee so as to return the same to the same condition as prior to such construction. . Company shall have the further right to grant to other public utilities such easements as Company deems advisable over and across the demised premises, provided said easements and facilities constructed pursuant thereto do not damage or destroy then existing facilities of the Lessee, and, upon the granting of said easements by Company, the rights created by this lease shall be subordinate to the rights so granted by such easements.

11. MISCELLANEOUS TERMS AND COVENANTS: (a) Anything in this lease to the contrary notwithstanding this lease and Lessee's rights hereunder are subject to all incidents of the use by Company of its reservoirs and other facilities for public water supply or allied purposes, including but not limited to Company's right to withdraw all or any portion of the water therefrom, Company's right to raise the water level in the reservoir if deemed necessary by Company to increase the storage capacity thereof, and Company's right to enter upon the demised premises at any time for the purpose of taking any action required for such purpose. Lessee shall engage in no activity, nor shall it permit any

activity, hereunder that in any way interferes with said purposes and the Company shall be under no duty to maintain the water in the reservoir at any particular level (or to maintain any water whatever therein) or to do any other act with respect to the condition or use of the reservoir or the surrounding areas.

(b) It is understood by the parties hereto that a portion of the demised premises is now subject to a certain lease between Company and Lake Ellerslie Fishing Club, dated March 15, 1965, a copy of which agreement has been furnished to Lessee, under terms of which said Fishing Club has certain rights to use a portion of the demised premises. Upon sixty (60) days written notice from Lessee to Company stating that it is prepared to proceed immediately with the recreational development of land or water area leased by Company to said Fishing Club and included within the boundaries of the demised premises, Company shall proceed to terminate such rental agreement upon the expiration of its current term (March 15, 1970) and upon such termination, possession thereof shall be immediately delivered to Lessee. Company shall not be liable to the Lessee by reason of any refusal by such tenant under said rental agreement to give up possession of such property, nor shall Company have any obligation except in cooperation with and at the expense of Lessee

to take such action as may be required to put Lessee in possession of said lands.

(c) Anything in this lease to the contrary notwithstanding this lease and Lessee's rights hereunder are subject and subordinate to:

(1) The lien of a certain mortgage indenture dated as of December 1, 1937, as supplemented and amended, from Company to Chemical Bank and Trust Company (now Chemical Bank New York Trust Company) and Howard B. Smith (now Richard G. Vinard) securing Company's first mortgage bonds in various series;

(2) Any rights of creditors in the demised premises which may now exist or may hereafter be created by existing or future financing arrangements made by Company, the right to further incumber said property being hereby specifically reserved to Company, it being the understanding of the parties hereto that the lease hereby granted shall be and hereafter always remain subject and subordinate to the rights of creditors of Company, whether under mortgages, indentures or otherwise; and

(3) In accordance with this subordination, this lease shall be subject to termination by a trustee in bankruptcy or in reorganization proceedings (including reorganization proceedings under any federal bankruptcy

law or similar statutory proceeding), lawfully appointed, or by the trustee or by any receiver appointed in any action or proceeding or foreclosure under the present indenture or otherwise or for the enforcement of the rights of the trustee or of the bondholders if, during the continuance in the event of default such trustee or such receiver shall have entered upon and taken possession of Company's property mortgaged or subject thereto.

(d) Lessee shall not sublet the whole or any part of the demised premises or assign this lease or Lessee's leasehold estate without the prior written consent of the Company.

12. TERMINATION PROVISIONS: (a) If Lessee fails to perform any of the terms, covenants or conditions of this lease, including, without limiting the generalities of the foregoing, the payment of all amounts due and payable hereunder and the supervision, policing, maintenance, repairing and restoring of the demised premises as herein provided, said failure shall constitute an event of default. If such an event of default shall occur and shall be continuing for thirty (30) days after the service of written notice of such event of default by Company upon Lessee, then this lease shall cease and come to an end all at the date specified in said notice, which date shall not be less than thirty (30) days after delivery

of said notice, and Lessee will then quit and surrender the demised premises to the C ; provided, however, that in case of a default which is capable of being cured, but which cannot with due diligence be cured within a period of thirty (30) days, the time for curing of said default can be extended with written approval of Company for such reasonable period as may be necessary to complete the same with all due diligence.

(b) If any effective regulations now existing or hereafter adopted by the Department of Health of the State of Kentucky or any other governmental agency, or any present or future law of the State of Kentucky, shall make any of the recreational uses of the demised premises unlawful, then this lease shall be modified without the necessity for further action by the parties hereto so as to exclude said illegal use from the permitted recreational uses of the demised premises. Upon any of the originally intended recreational uses being declared unlawful in accord with the foregoing sentence, the Lessee may, at its election, and upon not less than six (6) months written notice to Company, terminate this lease, the date of such termination to be specified in said notice and to be not earlier than six (6) months from the date of such notice.

(c) It is mutually agreed and understood by Company and Lessee that this lease is predicated upon the

demised premises being used and useful to the Company in its operation as a water utility and that this lease for recreational purposes is dependent upon and only compatible with said demised premises being so considered as used and useful to Company by the appropriate state regulatory body. It is further mutually agreed that if it is determined that all or any part of the demised premises is not property which is used and useful to Company in its operation as a water utility, such determination to be made by the appropriate state regulatory body and, if the proceedings in which said determination is made shall become final and binding upon Company, then this lease shall cease and come to an end as to any part of the demised premises so determined not to be used and useful property to Company within sixty (60) days after delivery by Company to Lessee of written notice of said final determination, provided, however, that Lessee shall within said sixty (60) day period have the option to continue to lease that part of the demised premises so determined not to be used and useful property to Company upon the payment of an annual rental to be then mutually agreed upon by Company and Lessee. In the event that Company and Lessee cannot reach a satisfactory agreement as to such annual rental, the Lessee shall have an option to purchase that part of the demised premises so determined not to be used and useful property to Company, which option may be exercised by Lessee by

the service of a written notice of the exercise thereof upon Company within said sixty (60) day period. If Lessee exercises this option to purchase, the purchase price shall be: (1) An amount to be then mutually agreed upon by Company and Lessee, or (2) In the event Company and Lessee cannot within thirty (30) days reach an agreement as to price, then the purchase price shall be the then full fair market value of that portion of the demised premises (excluding Lessee's facilities thereon) so determined not to be used and useful to Company as established by three (3) independent, impartial and qualified real estate appraisers engaged in the real estate business in Fayette County, Kentucky, one such appraiser to be selected by Company, one by the Lessee and the third by the two (2) appraisers so selected.

(d) Lessee covenants and agrees that it will, within one (1) year from the commencement of the term of this lease, prepare and deliver to Company a master plan for the complete recreational development of the demised premises, together with a specific schedule of completion dates for each separate project, it being understood that the entire demised premises will be developed in a reasonable and prudent manner by Lessee for recreational purposes for the use and benefit of the general public of the City of Lexington and Fayette County, Kentucky. Lessee shall have the right to amend said master plan from time to time

During the term of this lease, but hereby covenants and agrees to make all reasonable efforts to complete the recreational development of the demised premises in accord with its master plan and completion schedule within the shortest period of time feasible for Lessee.

(e) Lessee, upon termination of this lease for any reason whatever, shall comply with the provisions of this agreement and surrender to Company immediate and peaceable possession of the demised premises in good order, condition and repair. Upon failure of Lessee to surrender possession of the demised premises in accord with this agreement upon the date that this lease terminates, Lessee shall become liable to pay rent for the demised premises beginning on the date said termination becomes effective and continuing until Lessee shall have surrendered possession of the demised premises in an amount equal annually to twelve (12%) percent of the then fair market value of the demised premises, said rentals to be payable monthly in advance, the fair market value of the demised premises to be determined as provided in subparagraph (c) above for the determination thereof in the event of a sale of a portion of the demised premises to Lessee. In the event rentals become due under this subparagraph of this agreement, and in the further event Lessee fails to appoint an appraiser to determine the fair market value of the demised premises

within ten (10) days following notice by Company to Lessee of the appointment of Company's appraiser, then and in that event Company's appraiser shall proceed to determine the fair market value of said property and such determination by Company's appraiser acting in good faith shall be binding upon Lessee and Company with respect to the amount of rentals due under this subparagraph.

(E) The rights and remedies given to Company in this lease are distinct, separate and cumulative remedies and no one of them, whether or not exercised by Company, shall be deemed to be an exclusion of any of the others provided herein or provided by law or equity. In event of a breach or a threatened breach by Lessee of any of the terms, covenants, conditions or agreements hereof or upon the occurrence of an event of default, Company shall have the right to invoke any remedy allowed by law or in equity, including the right of injunction to restrain any breach or threatened breach, as well as re-entry, summary proceedings, termination or other specific remedies, indemnity or reimbursement were not herein authorized.

(G) Lessee hereby expressly waives service of any notice of re-entry or to institute legal proceedings to that end. Lessee hereby further waives any and all rights under any statute, law or decision now or hereafter in force and effect to recover or regain possession of the demised premises or to reinstate or redeem this lease in the event that Lessee

shall be evicted or disposed of for any cause, or in the event the Company obtains possession of the demised premises by reason of the violation by Lessee of any of the terms, covenants, conditions or agreements of this lease or otherwise. As used in this lease, the words "re-enter" and "re-entry" shall not be limited to their technical or common law meaning.

13. MISCELLANEOUS: (c) All notices, demands, requests, offers, consents, acceptances and other communications (notwithstanding called "communications") which may or are required to be given by either party to the other shall be in writing. All communications by the Company to the Lessee shall be sent by United States Registered Mail, postage prepaid, addressed to the Lessee at _____
_____ Lexington, Kentucky, or at such other place as the Lessee may from time to time designate in a written notice to Company. All communications by the Lessee to Company shall be sent by United States Registered Mail, postage prepaid, addressed to the Company at 137 North Upper Street, Lexington, Kentucky, or at such other place Company may from time to time designate in a written notice to the Lessee. Communications which shall be served upon the Company or the Lessee in the manner provided shall be efficiently served or given for all purposes hereunder and shall be deemed to have been served or given as of the date of receipt thereof.

(b) On each separate recreational facility constructed or installed by Lessee, Lessee shall erect a sign, setting forth in addition to any information desired by Lessee, that such facility is made available by the Lexington Water Company.

(c) In establishing charges to the public for the use of any public recreational facility developed or constructed upon the demised premises, Lessee shall follow the policy that all such charges shall be only the minimum charges necessary to develop, construct, operate and maintain the recreational facilities herein permitted for the use of the public, including a satisfaction of any debt service requirements directly connected with the construction, development, operation and maintenance of such facilities.

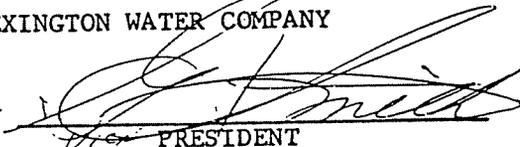
(d) At all times during the term of this lease, or any renewal thereof, Lessee shall have the planning, development, management and supervision of all recreational facilities under the direct supervision and control of a professional park director employed on a full-time basis by Lessee and properly accredited by an accrediting association generally recognized in the area where the demised premises are located.

(e) The covenants and agreements herein contained shall be binding upon and enure to the benefit of the parties hereto, their respective successors and assigns. This lease

and the rights and obligations of the parties hereunder shall be construed and interpreted in accord with the laws of the State of Kentucky. This lease contains the entire agreement between the parties hereto and no amendments or modifications shall be effective or binding until set forth in an instrument in writing, executed by the parties hereto, or their respective successors in interest.

IN WITNESS WHEREOF, the parties hereto have caused their respective signatures to be affixed hereto by their proper officers, duly authorized in the premises, and their respective corporate seals to be hereto affixed, all as of the day and year first above written.

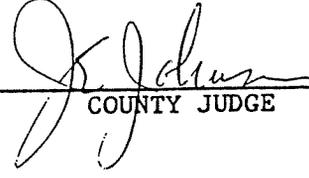
LEXINGTON WATER COMPANY

By 
PRESIDENT

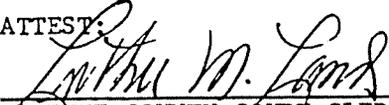
ATTEST:


Asst. SECRETARY

FAYETTE COUNTY, KENTUCKY, a
political subdivision of the
COMMONWEALTH OF KENTUCKY

By 
COUNTY JUDGE

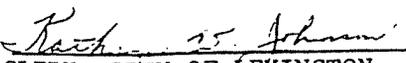
ATTEST:


FAYETTE COUNTY COURT CLERK

CITY OF LEXINGTON, KENTUCKY
a municipal corporation

By 
MAYOR

ATTEST:


CLERK, CITY OF LEXINGTON

STATE OF KENTUCKY

COUNTY OF FAYETTE

I, Carol F Walker, a Notary Public in and for the state and county aforesaid, do hereby certify that the foregoing Lease Agreement between Lexington Water Company and Fayette County, Kentucky and the City of Lexington, Kentucky was this day produced before me in my office in said county and state by G. C. Smith, Vice President and General Manager of the Lexington Water Company, and that the same was thereupon acknowledged by the said G. C. Smith to be the free and voluntary act and deed of the Lexington Water Company, a corporation, and his free and voluntary act and deed as Vice President and General Manager thereof, all of which is hereby certified to the proper office for record.

WITNESS MY HAND AND SEAL OF OFFICE at Lexington, Kentucky, this the 28th day of March, 1968.

My Commission expires: August 5, 1969

Carol F Walker
NOTARY PUBLIC, FAYETTE
COUNTY, KENTUCKY

STATE OF KENTUCKY

COUNTY OF FAYETTE

I, Russell Owen Hanning, a Notary Public in and for the state and county aforesaid, do hereby certify that the foregoing Lease Agreement between the

Lexington Water Company and Fayette County, Kentucky and the City of Lexington, Kentucky was this day produced before me in my office in said state and county by Joseph E. Johnson, III, County Judge of Fayette County, Kentucky, who thereupon acknowledged the same to be the free and voluntary act and deed of Fayette County, Kentucky, and his free and voluntary act and deed as County Judge thereof, all of which, together with my certificate is hereby certified to the proper office for record.

WITNESS MY HAND AND SEAL OF OFFICE at Lexington, Kentucky, this the 28 day of March, 1968.

My Commission expires: May 20, 1970

Richard Cecil Shively
NOTARY PUBLIC, FAYETTE
COUNTY, KENTUCKY

STATE OF KENTUCKY

COUNTY OF FAYETTE

I, Richard Cecil Shively, a Notary Public in and for the state and county aforesaid, do hereby certify that the foregoing Lease Agreement between the Lexington Water Company and Fayette County, Kentucky and the City of Lexington, Kentucky was this day produced before me in my office in said county and state by Charles Wylie, Mayor of the City of Lexington, Kentucky, and that the same was thereupon acknowledged by him to be the free and voluntary act and deed of the City of Lexington and

his free and voluntary act and deed as Mayor thereof,
all of which, together with my certificate is hereby
certified to the proper office for record.

WITNESS MY HAND AND SEAL OF OFFICE at Lexington,
Kentucky, this the 27 day of March, 1968.

My Commission expires: Mar 22 1971

Rueda Ann Henry
NOTARY PUBLIC, FAYETTE
COUNTY, KENTUCKY

This instrument was
prepared by
Rueda Ann Henry
Secretary, Bank Bldg.
Lexington, Ky.

CECIL C. HARP ENGINEERS

156 MARKET STREET
LEXINGTON, KENTUCKY
40507

TELEPHONE 252-3431
AREA CODE 606

ORVILLE P. WHEAT
WILLIAM H. FINNIE
SIDNEY E. MITCHELL
ROGER LADENBURGER
DAVID P. PERRY
CARLOS G. BANKS

November 10, 1967

CECIL C. HARP
CONSULTANTS

LEXINGTON WATER COMPANY PROPERTY
NORTHEAST SIDE OF RICHMOND ROAD
386.272 ACRES

All that tract or parcel of land situated on the northeast side of the Richmond Road about three miles southeast of Lexington, in Fayette County, Kentucky, and more fully described and bounded as follows, to-wit:

Beginning at a point in the northeast right-of-way of Richmond Road, said point being a corner to B. P. White, Jr.; thence with the northeast right-of-way of Richmond Road S 43° 50' E 20 feet to a corner with Anna D. Leftwich; thence with said Leftwich and the southeasterly side of a 20 foot lane, which belongs to the Lexington Water Company, N 48° 13' E 868.4 feet; thence continuing with Leftwich for three calls, S 41° 45' E 563.1 feet, S 08° 57' W 751.6 feet and S 49° 21' W 238.9 feet to the aforesaid northeast right-of-way of Richmond Road; thence along the northeast right-of-way of Richmond Road for eight calls, S 44° 13' E 1979.7 feet, S 45° 29' E 317 feet, S 47° 46' W 32 feet, S 43° 50' E 284 feet, S 33° 04' E 293 feet, S 38° 36' E 222 feet, S 49° 10' E 272 feet, S 56° 31' E 167 feet to the line of John McClelland and Joe Phelps, Jr.; thence with John McClelland and Joe Phelps, Jr. N 52° 11' E 2126.9 feet; thence again with John McClelland

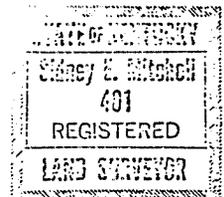
November 10, 1967

LEXINGTON WATER COMPANY PROPERTY
386.272 ACRES

and Phelps, Jr. and continuing with Inez Phelps S 45° 32' E 1912.5 feet to the center of the Walnut Hill and Chilesburg Pike; thence along the center of the Walnut Hill and Chilesburg Pike N 47° 32' E 20 feet to a corner with Clyde and Betty Johns; thence with Clyde and Betty Johns N 45° 32' W 780.8 feet; thence again with Clyde and Betty Johns and continuing with Claude R. and Lucille Snowden and Harvey and Virgie Hager, N 42° 35' E 1115.1 feet to the line of Harry, Graham, Shuck and David Tucker; thence with Harry, Graham, Shuck and David Tucker and continuing with C.S. & Rebecca R. Calvert, N 42° 51' W 4924.9 feet; thence again with C.S. & Rebecca R. Calvert for two calls, N49° 55' E 858.5 feet and S 88° 20' E 254 feet to a corner with Helene R. Case; thence with Helene R. Case for three calls, N 26° 00' W 171.9 feet, S 52° 25' W 90.2 feet and N 55° 06' W 816.6 feet to the line of the aforesaid B.P. White, Jr.; thence with B. P. White, Jr. for three calls, S 49° 15' W 812 feet, N 40° 43' W 365 feet and S 48° 13' W 3385.3 feet to the beginning and containing 386.272 acres.

Prepared by Sidney E. Mitchell

EXHIBIT "A" ATTACHED TO AND MADE A PART OF
A CERTAIN LEASE AGREEMENT BETWEEN LEXINGTON
WATER COMPANY, a corporation, AND FAYETTE
COUNTY, KENTUCKY AND THE CITY OF LEXINGTON,
KENTUCKY, DATED THE _____ DAY OF _____,
1968.



PARTIAL LEASE ASSIGNMENT

WHEREAS, by an agreement dated the 28th day of March, 1968, the Lexington Water Company, subject to certain restrictions and covenants, leased, for a period of twenty-five (25) years with an option to renew the same for another twenty-five (25) years, jointly to the City of Lexington and Fayette County, a certain tract of land containing approximately 386.272 acres, including a certain impounding reservoir known and designated as Reservoir No. 4, all located on U.S. 25 approximately four (4) miles East of the City of Lexington, to be used for public park and recreational purposes; and,

WHEREAS, both the City of Lexington and Fayette County desire and intend to establish and develop a portion of the lease-hold as a public golf course; and,

WHEREAS, it appears that the Fiscal Court of Fayette County is in dispute among its membership as to the propriety and legality of the financing of the County's share of the construction of said golf course; and,

WHEREAS, the City of Lexington has indicated its willingness to finance and construct the same.

NOW, THEREFORE, in consideration of the City of Lexington agreeing to construct and establish an 18-hole public golf course thereon, and other good and valuable considerations, including the assumption of the covenants and agreements in the original lease, Fayette County, pursuant to motion of its Fiscal Court,

this date duly passed, does hereby assign unto the City of Lexington, Kentucky, its successors and assigns, all its right, title and interest in and to Fayette County's lease-hold interest in the property described in Exhibits "A" and "B", attached hereto, which interest was created by lease agreement by and between the Lexington Water Company, Fayette County and the City of Lexington, dated March 28, 1968.

Dated this 1st day of Oct, 1968.

FAYETTE COUNTY KENTUCKY
(A political subdivision)

ATTEST:

Luella Lee
FAYETTE COUNTY COURT CLERK

By:

J. J. Johnson
COUNTY JUDGE

ACCEPTANCE OF ASSIGNMENT

The City of Lexington, Kentucky, hereby accepts the foregoing assignment to it by Fayette County, according to the conditions of said assignment.

Dated this 7 day of October, 1968
CITY OF LEXINGTON, KENTUCKY

ATTEST:

Kathleen W. Johnson
CITY CLERK

By:

James D. Lister
MAYOR

CONSENT TO LEASE ASSIGNMENT

The Lexington Water Company, by its Vice President and General Manager, pursuant to authority of a specific resolution of its Board of Directors, hereby consents to the assignment by Fayette County to the City of Lexington, Kentucky of that portion of the lease-hold interest granted to Fayette County and the City of Lexington, Kentucky, by lease agreement dated March 28, 1968,

described in Exhibits "A" and "B" of the foregoing assignment.

Dated this 11th day of October, 1968.

LEXINGTON WATER COMPANY

attest;

By [Signature]
VICE PRESIDENT

[Signature]
ASSISTANT SECRETARY

STATE OF KENTUCKY)
SCT
COUNTY OF FAYETTE)

I, Ruth Ann Henry, a Notary Public in and for the State and County aforesaid do hereby certify that the foregoing Partial Lease Assignment between Fayette County, Kentucky, and the City of Lexington, Kentucky, was this day produced before me in my office in said State and County by JOSEPH E. JOHN III, County Judge of Fayette County, Kentucky, who thereupon accepted the same to be the free and voluntary act and deed of Fayette County, Kentucky, and his free and voluntary act and deed as County Judge thereof, all of which together with my certificate is hereby certified to the proper office for record.

WITNESS my hand and notarial seal this 1st day of October, 1968.

Ruth Ann Henry
NOTARY PUBLIC, State of Kentucky

My commission expires May 22, 1970

STATE OF KENTUCKY)
SCT
COUNTY OF FAYETTE)

I, Eleonore Spence, a Notary Public in and for the State and County aforesaid, do hereby certify that the foregoing Acceptance of Assignment from Fayette County to the City of Lexington, Kentucky, was this day produced before me in office in said State and County by CHARLES WYLIE, Mayor of the City of Lexington, Kentucky, and that the same was to be accepted by said Charles Wylie to be the free and voluntary act of the City of Lexington, Kentucky, and his free and voluntary act and deed as Mayor thereof, all of which together with my certificate is hereby certified to the proper office for record.

WITNESS my hand and notarial seal this 7 day of October, 1968.

Eleonore Spence
NOTARY PUBLIC

My commission expires My Commission Expires March 27, 1970

STATE OF KENTUCKY)
SCT
COUNTY OF FAYETTE)

I, Theresa M. Saunders, a Notary Public in and for the State and County aforesaid do hereby certify that the foregoing Consent to Lease Assignment between the Lexington Water Company, Fayette County, Kentucky, and the City of Lexington, Kentucky was this day produced before me in my office in said State and County by G. C. SMITH, Vice President and General Manager of the Lexington Water Company, who thereupon accepted the same to be the free and voluntary act and deed of Lexington Water Company, and his free and voluntary act and deed as Vice President and General Manager thereof, all of which together with my certificate is hereby certified to the proper office for record.

WITNESS my hand and notarial seal this 11th day of October, 1968.

Theresa M. Saunders
NOTARY PUBLIC

My Commission expires March 29, 1971.

NOTICE OF RENEWAL

DATED: October 16, 1991

TO: Robert A. Edens
Vice President and General Manager
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

By certified mail,
return receipt requested
No. P 513 195 713

FROM: Scotty Baesler, Mayor
Lexington-Fayette Urban County Government
Twelfth Floor
Government Center
200 East Main Street
Lexington, KY 40507

RE: 25-year lease, between the water company and
the government, of 386.272 acres on the north side
of Richmond Road currently utilized as Jacobson
Park and Lakeside Golf course

Under lease dated March 28, 1968, Paragraph 1. (TERM:), page
3, please accept this as timely notice that your Lessee hereby
elects to renew said lease for an additional 25-year term as
specified therein, from March 1, 1993 through February 28, 2018.

LEXINGTON-FAYETTE URBAN
COUNTY GOVERNMENT
200 East Main Street
Lexington, Kentucky 40507

BY: Scotty Baesler
Scotty Baesler, Mayor

ATTEST:

Jackie Kelsey

000067/J52



AMENDMENT TO LEASE

THIS AMENDMENT TO LEASE ("Amendment"), made and entered into this the 16th day of May, 2005 (the "Effective Date"), by and between **KENTUCKY-AMERICAN WATER COMPANY** (the "Company" and/or the "Lessor"), a Kentucky corporation, with its principal office and place of business at 2300 Richmond Road, Lexington, Fayette County, Kentucky, and **THE LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT** (the "Lessee"), an urban county government organized and existing pursuant to Chapter 67A of the Kentucky Revised Statutes, whose address is 200 East Main Street, Lexington, Kentucky 40507;

WITNESSETH:

WHEREAS, the Company (as successor-in-interest to Lexington Water Company) is the lessor, and Lessee (as successor-in-interest to the City of Lexington) is the lessee under that certain lease (the "Lease") dated March 28, 1968 and of record in Deed Book 946, Page 82 in the Fayette County Clerk's Office; and

WHEREAS, pursuant to the Lease, Lessee has leased and is leasing from the Company a tract of land consisting of approximately 386 acres (the "Demised Premises") for the sum of Ten Dollars (\$10.00) per year, for a base lease period beginning March 1, 1968 and ending February 28, 1993, and for an optional lease period commencing March 1, 1993, and ending February 28, 2018; and

WHEREAS, Lessee has constructed upon the Demised Premises and maintains and operates thereon numerous recreational facilities for the benefit of the community, including but not limited to Lakeside Golf Course and Jacobson Park; and

WHEREAS, Lessee's present uses of the Demised Premises, including the spraying of chemicals on Lakeside Golf Course, do not, to the current knowledge of Lessor, constitute a pollution hazard within the meaning of the Lease; and

WHEREAS, the water impoundment known as Reservoir No. 4 and its environs located in and upon the Demised Premises are an integral part of the Company's water supply system; and

WHEREAS, the parties desire to modify the Lease for the benefit of the Lessee and the citizens of Lexington-Fayette County and Central Kentucky.

NOW, THEREFORE, for and consideration of the mutual covenants and agreements set forth in the Lease and in this Amendment, the receipt and sufficiency of which are hereby acknowledged, the parties agree that the Lease shall be and is hereby amended as of the Effective Date, as follows:

1. All words or terms which appear in this Amendment with the initial letter(s) capitalized but which are not otherwise defined shall have the same meaning(s) as is/are ascribed to such words or terms in the Lease.

2. The term of the Lease, presently scheduled to expire on the 28th day of February, 2018, is hereby amended so that the Lease shall terminate on January 2, 2011 (the "Scheduled Expiration Date").

3. Provided that the Lease is in full force and effect on the Scheduled Expiration Date, and that Kentucky Public Service Commission ("PSC") approval as specified in numerical paragraph 9 hereof ("PSC approval") has been obtained, Lessor agrees that it will cause a deed of the Demised Premises in the form attached hereto as Exhibit "A" to be delivered to Lessee pursuant to the terms of the Escrow Agreement

attached hereto as Exhibit "B." If PSC approval has not been obtained prior to the Scheduled Expiration Date, then the Lease shall not terminate on the Scheduled Expiration Date but shall remain in effect until the earlier of (i) February 28, 2018 or (ii) the date upon which PSC approval is obtained. If PSC approval has not been obtained by February 28, 2018, then the Lease shall automatically renew on a year-to-year basis until PSC approval is obtained. All provisions of the Lease as amended by this Amendment shall remain in full force and effect during any and all renewals of the Lease.

4. As of the Effective Date of this Amendment, any and all of the Company's rights to terminate this Lease prior to the Scheduled Expiration Date, including but not limited to the rights of early termination set forth in numerical paragraph 12 of the Lease, are hereby waived, forfeited, and deleted from the Lease. The Company shall retain all other rights and remedies it has under the Lease in the event of a default by Lessee.

5. Paragraph 4.(g) of the Lease is hereby deleted.

6. Except as expressly amended by this Amendment, the Lease shall remain unamended, in full force and effect, and enforceable pursuant to its terms and conditions. In the event any term, covenant, or condition contained in this Amendment conflicts with the terms, covenants, and conditions contained in the Lease, or any of them, the terms, covenants, and conditions of this Amendment shall govern and prevail.

7. This Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

8. From and after the Effective Date, all references in the Lease or in this Amendment to the Lease or this "lease," or "Lease," shall be deemed to be references to the Lease as amended by this Amendment.

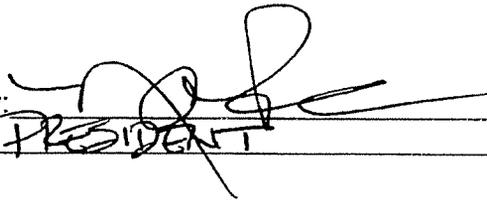
9. Lessor will proceed immediately to request approval from the PSC for those provisions of this Amendment for which approval by the PSC is required by law and/or by prior orders of the PSC. Upon obtaining all appropriate, final, and non-appealable approvals from the PSC, Lessor will sign the Deed of the Demised Premises in the form attached hereto as Exhibit "A" and execute the Escrow Agreement in the form attached hereto as Exhibit "B," which Escrow Agreement shall be contemporaneously executed by Lessee, thereby causing the Deed of the Demised Premises to be placed in escrow for subsequent delivery to Lessee. If, upon the initial application, PSC approval is not obtained: (i) Lessor will nonetheless sign the Deed of the Demised Premises in the form attached hereto as Exhibit "A" and execute the Escrow Agreement in the form attached hereto as Exhibit "B," which Escrow Agreement shall be contemporaneously executed by Lessee, thereby causing the Deed of the Demised Premises to be placed in escrow for subsequent delivery to Lessee; (ii) the Lease shall remain in effect pursuant to paragraph 3 of this Amendment and all provisions of this Amendment not requiring approval by the PSC shall be in full force and effect; and (iii) both Lessor and Lessee shall have the perpetual right to re-petition the PSC to obtain PSC Approval. Each of the parties hereto shall join in any such re-petition initiated by the other party.

10. Lessor will not reserve or impose any additional restrictions of record on the Demised Premises between the execution of this Amendment to Lease by the

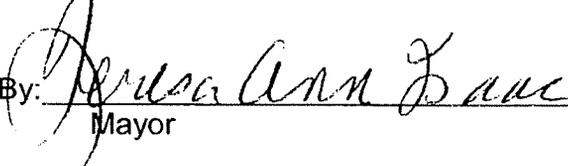
parties hereto and the Scheduled Expiration Date without obtaining prior written consent from Lessee. Lessee agrees and covenants that its consent for any reservation or imposition of additional restrictions of record shall not be unreasonably withheld.

IN WITNESS WHEREOF, the parties hereunto have set their hands this the day and year first above written by and through their duly authorized representatives.

KENTUCKY-AMERICAN WATER COMPANY

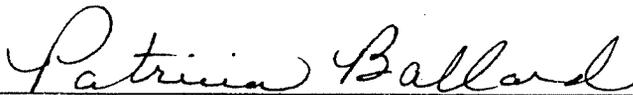
By: 
Its PRESIDENT

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

By: 
Mayor

COMMONWEALTH OF KENTUCKY
COUNTY OF FAYETTE

The foregoing instrument was subscribed, sworn to and acknowledged before me this 10th day of May, 2005, by Nick O. Rowe as President of **KENTUCKY-AMERICAN WATER COMPANY**, a Kentucky corporation, for and on behalf of said corporation.

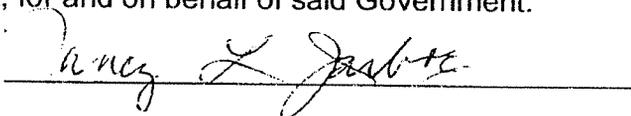


NOTARY PUBLIC, STATE AT LARGE

My Commission Expires: Jan. 28, 2008

COMMONWEALTH OF KENTUCKY
COUNTY OF FAYETTE

The foregoing instrument was subscribed, sworn to and acknowledged before me this 16 day of May, 2005, by TERESA ANN ISAAC, as MAYOR of **LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**, an urban-county government organized and existing pursuant to Kentucky Revised Statutes Chapter 67A, for and on behalf of said Government.



NOTARY PUBLIC, STATE AT LARGE

My Commission Expires: March 9, 2007

THIS INSTRUMENT WAS PREPARED BY:

STOLL, KEENON & PARK, LLP
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000

BY: _____

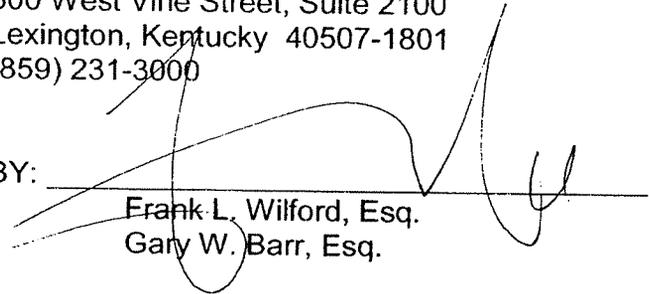

Frank L. Wilford, Esq.
Gary W. Barr, Esq.

Exhibit A

GENERAL WARRANTY DEED

THIS GENERAL WARRANTY DEED (the "Deed") is made and entered into by Grantor on _____, 2005, to be effective on or after January 2, 2011, upon delivery and recording by the Escrow Agent pursuant to the terms of an Escrow Agreement dated _____, 2005, by and between (i) **KENTUCKY-AMERICAN WATER COMPANY**, a Kentucky corporation, with offices located at 2300 Richmond Road, Lexington, Kentucky 40502 (the "Grantor"), and (ii) **LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**, an urban-county government organized and existing pursuant to Kentucky Revised Statutes Chapter 67A, whose address is 200 East Main Street, Lexington, Kentucky 40507 (the "Grantee").

W I T N E S S E T H:

That for and in consideration of Ten Dollars (\$10.00) and all of the exceptions, covenants, conditions, easements, right of entry for condition broken and reservations herein contained, Grantor has this day BARGAINED AND SOLD and does hereby GRANT AND CONVEY unto Grantee, in fee simple, its successors and assigns forever, for public park and recreational purposes only, with covenant of GENERAL WARRANTY, but expressly subject to the exceptions, covenants, conditions, easements, right of entry for condition broken and reservations hereinafter specified, the following described real property, together with all of the rights, privileges, improvements thereon and appurtenances thereunto belonging,

located in Lexington, Fayette County, Kentucky, and being more particularly described as follows (the "Real Property"):

See Exhibit "A" that is attached hereto, made a part hereof and incorporated herein by reference for a particular description of the Real Property.

Being a part of the same property conveyed to Grantor by (i) Deed dated January 12, 1923, from Frank Christian and Minnie Christian, his wife, to Lexington Water Company (now Kentucky-American Water Company), recorded in Deed Book 215 at Page 373, in the Fayette County Clerk's office, (ii) Deed dated December 12, 1906, from Southern Stave and Tie Company to Lexington Hydraulic and Manufacturing Company (now Kentucky-American Water Company), recorded in Deed Book 148, at Page 264, in the Fayette County Clerk's office, (iii) Deed dated October 26, 1912, from B.E. Allen and Cora H. Allen, his wife, to Lexington Hydraulic and Manufacturing Company (now Kentucky-American Water Company), recorded in Deed Book 168, at Page 124, in the Fayette County Clerk's office, (iv) Deed dated October 18, 1921, from Lew Sharp and Artemisia Sharp, his wife, to Lexington Hydraulic and Manufacturing Company (now Kentucky-American Water Company), recorded in Deed Book 208, at Page 442, in the Fayette County Clerk's office, and (v) Deed dated January 2, 1922, from John William Denton and Matilda Lear Denton, his wife, to Lexington Hydraulic and Manufacturing Company (now Kentucky-American Water Company), recorded in Deed Book 209, at Page 605, in the Fayette County Clerk's office.

PROVIDED, HOWEVER, THERE IS RESERVED FROM THE FOREGOING REAL PROPERTY, for the benefit of Grantor and its successors and assigns forever:

- (A) A perpetual easement for the use by Grantor of the part of the reservoir on the Real Property, known as Jacobson Reservoir (the "Reservoir"), consistent with the historical use thereof, which use includes, but is not limited to, the following rights, but not obligations, which may be exercised from time to time, to: (1) withdraw any portion of the water from the Reservoir that is reasonably necessary for the provision of potable water service to Grantor's customers, (2) raise the water level in the Reservoir but not above 967.3 feet above

Mean Sea Level, (3) treat the water in the Reservoir for quality enhancement, (4) remove sediment from the Reservoir, (5) test, monitor and sample the water in the Reservoir, and (6) enter upon the Real Property at any time for the purpose of taking any action required for any of such purposes. Prior to building, causing or permitting to be built any building or other structure on, in, or within the high-water level of the Reservoir, Grantee shall obtain the prior approval of Grantor, which approval shall not be unreasonably withheld by Grantor.

- (B) A perpetual easement and right-of-way for the purposes of constructing, inspecting, maintaining, operating, removing, rebuilding and repairing water transmission and distribution lines and associated facilities that do not foreclose any material portion of the Real Property from being used as parkland including, but not limited to, meters, metering devices, valves, fittings, blow-offs and pumps thereon, and for adding to and from time to time installing the same, with all necessary fittings and attached facilities (which right to construct additional facilities shall not be exercised without the prior approval of Grantee and which approval shall not unreasonably be withheld by Grantee, but prior approval of Grantee shall not be required if Grantor has obtained a Certificate of Public Convenience and Necessity from the Public Service Commission of Kentucky for the exercise of such right to construct additional facilities which requires their placement on the Demised Premises), said easement and permanent right-of-way being more particularly described as follows:

See Exhibit "B" that is attached hereto, made a part hereof, and incorporated herein by reference for a particular description of the easements existing as of the date of the execution of this Deed. Any additional easements created prior to delivery of this Deed pursuant to the Escrow Agreement referred to above shall be attached hereto as Exhibit "C," which exhibit is made apart hereof, and incorporated herein by reference.

Grantor shall have the right to remove trees, brush and other obstructions or obstacles located upon the easement and right-of-way which might interfere with its facilities thereon or with the full exercise of its rights herein granted and Grantee, its successors and assigns, are specifically restricted, except as authorized in paragraph (A) above, from building, causing or permitting to be built any building or other structure upon the easement and right-of-way herein described. Grantor, in exercise of its rights with respect to the "Retained Easements" (as hereinafter defined), shall do so in a manner to minimize, to the extent reasonably practicable, any interference with the use of the Real Property as a public park and recreational facility. Grantor shall restore such area of the Real Property as has been disturbed by the exercise of Grantor's rights, as soon as is practicable, to a condition substantially similar to its condition prior to Grantor's exercise of its rights.

All of the foregoing easements, rights-of-way and rights are hereafter collectively referred to as "Retained Easements."

Grantee agrees no use shall be made, nor shall any activity be conducted, upon the Real Property that causes a pollution hazard to the water, lands or facilities maintained by Grantor within, adjacent to or in the general area of the Real Property. Grantee covenants and agrees that in the event any facility or activity upon the Real Property interferes with the use and enjoyment of the Retained Easements or constitutes a pollution hazard, Grantee will take immediate action to remove such facility or to cause such activity to be discontinued.

If, and at such time as, the Public Service Commission or comparable agency of the Commonwealth of Kentucky determines that the Reservoir is no

longer used and useful as public utility property, Grantor shall, by an appropriate, recordable document, release the easement retained above in paragraph (A) for the Reservoir. If, and at such time as, the Public Service Commission or comparable agency of the Commonwealth of Kentucky determines that the easement retained above in paragraph (B) is no longer used and useful as public utility property, Grantor shall, by an appropriate, recordable document, release the easement retained above in paragraph (B).

TO HAVE AND TO HOLD, in fee simple, all of the Real Property, together with all the rights, privileges, appurtenances and improvements thereunto belonging, unto Grantee, its successors and assigns forever, for public park and recreational purposes only and further subject to the exceptions, covenants, conditions, easements, right of entry for condition broken and reservations herein specified.

Except as otherwise expressly set forth, Grantor does hereby release and relinquish unto Grantee, its successors and assigns forever, all of Grantor's right, title and interest in and to the Real Property, including without limitation all exemptions allowed by law, with covenant of GENERAL WARRANTY.

PROVIDED, HOWEVER, the foregoing conveyance is expressly made subject to, and Grantor hereby reserves for itself and its successors and assigns, the right to enter upon the Real Property upon the occurrence of either of the following:

1. Grantee, its successors or assigns, shall cease to use the Real Property for public park and recreational purposes only; or

2. The failure to pay the Grantor, its successors or assigns the “then fair market value of the Real Property” following the acquisition by eminent domain proceedings by Grantee, its successors or assigns or any agency or instrumentality thereof, of all or substantially all of the property and assets of Grantor located in Fayette County, Kentucky, and devoted to the provision of water service if the Real Property was not included in the property acquired and paid for in these eminent domain proceedings. As used herein, the “then fair market value of the Real Property” is defined to mean the fair market value at the time of the acquisition, determined in accordance with the common and statutory law of eminent domain of the Commonwealth of Kentucky existing at the time of the eminent domain proceedings referenced in this paragraph, without taking into account any value of the then existing improvements to the Real Property made by Grantee or any or all of the restrictions contained herein, as established by three (3) independent, impartial and qualified real estate appraisers engaged in the real estate business in Fayette County, Kentucky, one such appraiser to be selected by Grantor, one by Grantee, and the third by the two (2) appraisers so selected. All three appraisers selected will appraise the Real Property. The fair market value shall be the average of the three (3) appraisals unless any one of the appraisals vary from the other two by more than ten percent (10%), such appraisal shall be disregarded and the fair market value of the Real Property shall be the average of the two remaining. If each of the three appraisals vary from one another by more than ten percent (10%), the fair market value of the Real Property shall be the

middle appraisal of the three. The payment by Grantee required herein shall be made within six (6) months of the determination of the then fair market value of the Real Property. Grantee shall not be required to pay the fair market value to Grantor under this paragraph for any of Grantor's property or assets located within the Real Property and otherwise acquired by Grantee, its successors or assigns or any agency or instrumentality thereof, through eminent domain proceedings to acquire all or substantially all of the property and assets of Grantor located in Fayette County, Kentucky, and devoted to the provision of water service.

Upon and following the occurrence of either of the foregoing conditions, Grantor, its successors or assigns, shall have the immediate right of entry for condition broken to take possession of the Real Property (the "Right of Entry for Condition Broken") and upon exercising such right by notice to Grantee, the title of Grantee, its successors and assigns, in and to the Real Property shall cease and fee simple title to the Real Property shall vest in Grantor, its successors or assigns. Upon the occurrence of either of the foregoing conditions and exercise by Grantor, or its successors or assigns, of its Right of Entry for Condition Broken, Grantee, its successors or assigns, shall promptly re-convey title to the Real Property to Grantor, its successors or assigns, by General Warranty Deed, free and clear of all liens, encumbrances or rights to possession by any third party and upon any failure to so re-convey, Grantor, its successors or assigns, shall have the immediate right to specifically enforce the Right of Entry for Condition Broken by legal or equitable action. If either of the foregoing conditions does not occur prior

to the termination of the Right of Entry for Condition Broken under applicable Kentucky law, then the Right of Entry for Condition Broken and the obligation to make payment under paragraph 2. above shall be rendered void and of no force or effect.

Grantee hereby acknowledges, by acceptance of this Deed, that the transfer of fee simple title of the Real Property as done herein and the Right of Entry for Condition Broken upon the occurrence of the enumerated conditions are mutual and interdependent and that one is not binding and effective unless the other is binding and effective.

PROVIDED, HOWEVER, there is further excepted from the Grantor's foregoing warranty, and this conveyance is expressly made subject to, the following:

1. All restrictions, covenants, conditions, easements, stipulations and rights-of-way, if any, affecting the Real Property as may be contained on any plat of record in the Fayette County Clerk's office;
2. All zoning and building restrictions, regulations and ordinances, including any conditional zoning restrictions;
3. All restrictions, covenants, conditions, leases, easements, stipulations and rights-of-way of whatsoever nature and kind reserved and recorded in the Fayette County Clerk's office and in this Deed;

For purposes of compliance with Kentucky Revised Statutes 382.135, Grantor and Grantee hereby certify that the transfer of the property described

herein and conveyed hereby is by gift. Grantee joins in the execution of this Deed for the sole purpose of certifying that the transfer herein is a gift and to join with Grantor in declaring that the estimated fair cash value of the property conveyed hereby is \$_____.

This conveyance is exempt from payment of a transfer tax pursuant to Kentucky Revised Statutes 142.050 (7) (b).

IN WITNESS WHEREOF, Grantor and Grantee have executed this General Warranty Deed by their duly authorized officers as of the day, month and year first above written.

GRANTOR:

KENTUCKY-AMERICAN WATER COMPANY,
a Kentucky corporation

BY: _____

Its: _____

GRANTEE:

LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT, an urban-county government

BY: _____

Its: _____

COMMONWEALTH OF KENTUCKY

COUNTY OF FAYETTE

The foregoing instrument was subscribed, sworn to and acknowledged before me this ____ day of _____, 2005, by _____ as _____ of **KENTUCKY-AMERICAN WATER COMPANY**, a Kentucky corporation, for and on behalf of said corporation.

NOTARY PUBLIC, STATE AT LARGE

My Commission Expires: _____

COMMONWEALTH OF KENTUCKY

COUNTY OF FAYETTE

The foregoing instrument was subscribed, sworn to and acknowledged before me this ____ day of _____, 2005, by _____, as _____ of **LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**, an urban-county government organized and existing pursuant to Kentucky Revised Statutes Chapter 67A, for and on behalf of said Government.

NOTARY PUBLIC, STATE AT LARGE

My Commission Expires: _____

THIS INSTRUMENT WAS PREPARED BY:

STOLL, KEENON & PARK, LLP
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
(859) 231-3000

BY: _____

Frank L. Wilford, Esq.
Gary W. Barr, Esq.

EXHIBIT A

All that tract or parcel of land situated on the northeast side of the Richmond Road about three miles southeast of Lexington, in Fayette County, Kentucky, and more fully described and bounded as follows, to-wit:

Beginning at a point in the northeast right-of-way of Richmond Road, said point being a corner to B.P. White, Jr., thence with the northeast right-of-way of Richmond Road S 43° 50' E 20 feet to a corner with Anna D. Leftwich; thence with said Leftwich and the southeasterly side of a 20 foot lane, which belongs to the Lexington Water Company, N 48° 13' E 868.4 feet; thence continuing with Leftwich for three calls, S 41° 45' E 563.1 feet, S 08° 57' W 751.6 feet and S 49° 21' W 238.9 feet to the aforesaid northeast right-of-way of Richmond Road; thence along the northeast right-of-way of Richmond Road for eight calls, S 44° 13' E 1979.7 feet, S 45° 29' E 317 feet, S 47° 46' W 32 feet, S 43° 50' E 284 feet, S 33° 04' E 293 feet, S 38° 36' E 222 feet, S 49° 10' E 272 feet, S 56° 31' E 167 feet to the line of John McClelland and Joe Phelps, Jr.; thence with John McClelland and Joe Phelps, Jr. N 52° 11' E 2126.9 feet; thence again with John McClelland and Joe Phelps, Jr. and continuing with Inez Phelps S 45° 32' E 1912.5 feet to the center of the Walnut Hill and Chilesburg Pike; thence along the center of the Walnut Hill and Chilesburg Pike N 47° 32' E 20 feet to a corner with Clyde and Betty Johns; thence with Clyde and Betty Johns N 45° 32' W 780.8 feet; thence again with Clyde and Betty Johns and continuing with Claude R. and Lucille Snowden and Harvey and Virgie Hager, N 42° 35' E 1115.1 feet to the line of Harry, Graham, Shuck and David Tucker; thence with Harry, Graham, Shuck and David Tucker and continuing with C.S. & Rebecca R. Calvert, N 42° 51' W 4924.9 feet; thence again with C.S. & Rebecca R. Calvert for two calls, N 49° 55' E 858.5 feet and S 88° 20' E 254 feet to a corner with Helene R. Case; thence with Helene R. Case for three calls, N 26° 00' W 171.9 feet, S 52° 25' W 90.2 feet and N 55° 06' W 816.6 feet to the line of the aforesaid B.P. White, Jr.; thence with B.P. White, Jr. for three calls, S 49° 15' W 812 feet, N 40° 43' W 365 feet and S 48° 13' W 3385.3 feet to the beginning and containing 386.272 acres, as surveyed by Cecil C. Harp Engineers.

PROVIDED, there is EXCEPTED from the above-described property all of the property conveyed to the Commonwealth of Kentucky for the use and benefit of the Transportation Cabinet, Department of Highways, by deed dated June 26, 1998, of record in Deed Book 1999, Page 331, in the Fayette County Clerk's office.

EXHIBIT B

(1) A sixty foot (60') easement, extending thirty feet (30') on either side of the center line of an existing thirty inch (30") lockjoint high service transmission line along the northeastern boundary of Richmond Road; (2) a sixty foot (60') easement, extending thirty feet (30') on either side of the center line of an existing twenty inch (20") ductile iron line along the northeasterly boundary of Athens Boonesboro Road at its intersection with Richmond Road; and (3) a sixty foot (60') easement, extending thirty feet (30') on either side of the center line of an existing eight inch (8") PVC line along the northeastern boundary of Athens Boonesboro Road at its intersection with Richmond Road.

Exhibit B

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (the "Escrow Agreement") is made and entered into as of this ____ day of April, 2005, by and among **KENTUCKY-AMERICAN WATER COMPANY**, a Kentucky corporation ("Kentucky-American"), **LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**, an urban-county government organized and existing pursuant to Kentucky Revised Statutes Chapter 67A ("LFUCG") and **FIFTH THIRD BANK**, a Michigan banking corporation ("Escrow Agent").

W I T N E S S E T H :

WHEREAS, pursuant to an Amendment to Lease dated _____, 2005 (the "Lease Amendment"), Kentucky-American, and LFUCG have agreed to amend and modify that certain Lease between Kentucky-American (as successor-in-interest to Lexington Water Company) as the lessor, and LFUCG (as successor-in-interest to the City of Lexington) as the lessee (the "Lease") dated March 28, 1968 and of record in Deed Book 946, Page 82 in the Fayette County Clerk's Office, pursuant to which Kentucky-American has leased to LFUCG certain real property commonly know as Lakeside Golf Course and Jacobson Park in Lexington, Fayette County, Kentucky (the "Demised Premises"); and

WHEREAS, the Lease Amendment provides in part that if the Lease is in full force and effect on January 2, 2011 (the "Scheduled Expiration Date") and all appropriate, final, and non-appealable approvals have been obtained from the Public Service Commission of Kentucky ("PSC Approval"), Lessor agrees that it shall execute and deliver to Lessee on or after the Scheduled Expiration Date a deed of the Demised Premises in the form attached to the Lease Amendment as Exhibit "A" (the "Kentucky-American Deed"); and

WHEREAS, the Lease Amendment provides in part that if PSC Approval has not been obtained prior to the Scheduled Expiration Date the Lease shall not terminate but shall remain in effect until the earlier of February 28, 2018 or such time as PSC Approval has been obtained; and

WHEREAS, the Lease Amendment provides in part that if PSC Approval has not been obtained prior to February 28, 2018 the Lease shall automatically renew on a year-to-year basis with all provisions of the Lease as Amended remaining in effect until such time PSC Approval is obtained; and

WHEREAS, in order to assure the timely delivery of the Kentucky-American Deed, LFUCG and Kentucky-American have agreed that the Deed be placed in

escrow and Escrow Agent has agreed to be a depository for the Kentucky-American Deed.

NOW, THEREFORE, for and in consideration of the premises, the mutual covenants, agreements and conditions hereinafter set forth, the parties hereto agree as follows:

1. Deposit of Kentucky-American Deed. Kentucky-American hereby deposits for escrow with the Escrow Agent the original, Kentucky-American Deed (an unsigned copy of which is attached hereto as Exhibit "A") duly executed by an authorized officer of Kentucky-American and properly notarized. Escrow Agent hereby acknowledges receipt of the said original, executed Kentucky-American Deed and agrees to hold the same pursuant to the terms and conditions of this Escrow Agreement.

2. Effect of Escrow. LFUCG acknowledges that delivery of the Kentucky-American Deed to LFUCG shall be accomplished and effective only when the Kentucky-American Deed is released from escrow and recorded by the Escrow Agent subject to and in accordance with the terms of this Escrow Agreement.

3. Release of Kentucky-American Deed. The Kentucky-American Deed shall be recorded in the Fayette County Clerk's Office by the Escrow Agent upon application to Escrow Agent given at any time after January 2, 2011 accompanied by the sworn certification by LFUCG to the effect that: (i) the Lease was in full force and effect on the Scheduled Expiration Date; (ii) all appropriate, final, and non-appealable approvals from the Public Service Commission of Kentucky for delivery of the Deed have been obtained; and (iii) the application and sworn certification by LFUCG has simultaneously been delivered to Kentucky-American and its counsel, as provided for in Section 7 below.

4. Completion of Consideration Certificate and Attachment of Easement Description. *The parties acknowledge that the Kentucky-American Deed will be delivered into escrow with a blank for the estimated fair cash value of the Demised Premises and without the Easement description to be attached as Exhibit C to the Kentucky-American Deed. Prior to recordation of the Kentucky-American Deed, the Escrow Agent shall complete the blank with the value provided to it by Kentucky-American and shall attach the Easement description provided to it by Kentucky-American as Exhibit C. In the event Kentucky-American fails to provide the Escrow Agent with the estimated fair cash value of the Demised Premises and/or the Easement description prior to January 2, 2011, Escrow Agent shall proceed to record the Kentucky-American Deed in the Fayette County Clerk's Office with the*

blank for the estimated fair cash value of the Demised Premises completed with a value provided by LFUCG and/or without an attached Exhibit C, as applicable.

The parties agree that the value inserted in the blank for the estimated fair cash value of the Demised Premises shall be used only for purposes of satisfying the statutory requirement for estimating the fair cash value of the property conveyed by a deed where the deed is for nominal or no consideration or by gift. The estimated fair cash value of the Demised Premises shall not be used for any other purpose, shall not be admissible into evidence in any subsequent proceeding between the parties to determine the fair market value of the Demised Premises and shall not be considered by any appraisers in the determination of fair market value as provided for in Paragraph 2 on page 5 of the Kentucky-American Deed.

5. Rights And Duties of Escrow Agent.

A. Escrow Agent is acting hereunder as a depository only and is not responsible or liable in any manner for acting upon any notice, instrument or other document reasonably believed by it to be genuine and correct and to have been signed or sent by the proper person or persons.

B. Subject to the provisions of Section 5A above, Escrow Agent shall be entitled to act in complete reliance on any application for a release of the Kentucky-American Deed it receives and bears no responsibility for the accuracy of any such application.

C. All of the terms and conditions in connection with Escrow Agent's duties and responsibilities are contained in this Escrow Agreement and Escrow Agent is not expected or required to be familiar with the provisions of any other instrument and shall not be charged with any responsibility or liability in connection with the observance or nonobservance by anyone of the provisions of any such other instrument.

D. Kentucky-American and LFUCG hereby agree to indemnify Escrow Agent and hold it harmless from any and all claims, liabilities, losses, actions, suits or proceedings at law, or in equity, or any other expense, fee or charges of any character or nature, which it may incur or with which it may be threatened by reason of its acting as Escrow Agent under this Escrow Agreement, except in the case of Escrow Agent's own gross negligence, bad faith or willful misconduct; and in connection therewith, to indemnify Escrow Agent against any and all expenses, including attorney's fees and the cost of defending any action, suit or

proceeding for resisting any claim, but without prejudice to any right which either Kentucky-American or LFUCG may have to recover from the other party with respect to any such claim, damage, cost, liability or expense.

E. Escrow Agent shall not be bound or in any manner affected by any notice of any modification, cancellation, abrogation or rescission of this Escrow Agreement, or any fact or circumstance affecting or alleged to have affected the rights or liabilities of any other person, unless it has received written notice satisfactory to it, signed by all of the other parties hereto.

F. Escrow Agent may resign upon thirty (30) days written notice to the other parties hereto and delivery of the executed Kentucky-American Deed to a successor escrow agent designated by written notice to Escrow Agent signed by both Kentucky-American and LFUCG. If no such notice is received by Escrow Agent on or before the effective date of Escrow Agent's resignation, Escrow Agent may commence an action of the type described in the first sentence of Section 5G in a court of competent jurisdiction in Fayette County, Kentucky, and in connection therewith, deposit the executed Kentucky-American Deed with the clerk of such court.

G. If any two or more of the parties hereto shall be in disagreement about the interpretation of this Escrow Agreement or about the rights and obligations of, or the propriety of any action contemplated by, Escrow Agent hereunder, Escrow Agent may, at its sole discretion, refuse to comply with the demands of any party and file an action for a declaration to resolve the said disagreement. In no event shall Escrow Agent be required to file an action for a declaration or similar type of action or to defend any action or legal proceeding filed against it, but it may do so in its sole discretion, at no expense to it, with all expenses incurred by the Escrow Agent to be paid equally by Kentucky-American and LFUCG on demand; provided, however, the prevailing party shall be entitled to recover from the other party that portion of the Escrow Agent's expenses which the prevailing party had previously paid. Escrow Agent may continue to refuse to take any action, irrespective of the time which elapses during which such dispute continues, until either the rights of the disputing claimants have been duly adjudicated and Escrow Agent shall have received a certified copy of a final judgment of a court of competent jurisdiction, or until the claimants shall have reached agreement on their differences and shall have furnished to Escrow Agent joint instructions with respect to the action to be taken. Escrow Agent may conclusively rely on any such joint instructions and shall be fully protected and indemnified in taking any action in reliance thereon. All actions taken

by Escrow Agent pursuant to any court order shall be conclusively presumed to be taken in good faith.

6. Modification. This Escrow Agreement may not be amended, modified, canceled, abrogated or rescinded without the written consent of all parties hereto.

7. Notice. All notices, requests, demands, waivers and other communications hereunder shall be in writing and shall be deemed to be duly given when (a) delivered by hand delivery, or (b) delivered to a reputable courier (such as Fedex) for overnight delivery to the address(es) set forth below, or (c) sent by facsimile to the facsimile number set forth below, confirmed in writing by reputable courier (such as Fedex) for overnight delivery to the address(es) set forth below:

To Escrow Agent: Fifth Third Bank
250 W. Main Street
Lexington, Ky 40507
Attention: President
Telephone: (859) 455-5300
Facsimile: (859) 455-5295

To Kentucky-American: KENTUCKY-AMERICAN WATER COMPANY
2300 Richmond Road
Lexington, Kentucky 40502
Attention: President
Telephone: (859) 268-6320
Facsimile: (859) 268-6327

with copy to: Stoll, Keenon & Park, LLP
300 West Vine, Suite 2200
Lexington, Kentucky 40507
Attention: William M. Lear, Jr
Hanly A. Ingram
Telephone: (859) 231-3000
Facsimile: (859) 253-1093

To LFUCG: Lexington-Fayette Urban County Government
200 East Main Street
Lexington, Kentucky 40507
Attention: Mayor's Office
Telephone: (859) 258-3838

Facsimile: (859) 258-3194

with copy to: Lexington-Fayette Urban County Government
200 East Main Street
Lexington, Kentucky 40507
Attention: Department of Law
Telephone: (859) 258-3500
Facsimile: (859) 258-3538

with copy to: Lexington-Fayette Urban County Government
200 East Main Street
Lexington, Kentucky 40507
Attention: Council Office, 5th Floor
Telephone: (859) 258-3200
Facsimile: (859) 258-3838

subject to the right of any party to designate a different address by notice similarly given.

8. Benefit. This Escrow Agreement shall be binding on and shall inure to the benefit of the parties hereto and their respective successors and assigns. This Escrow Agreement is not intended to convey any rights or benefits to anyone who is not a party hereto and shall not be enforceable by any third party.

9. Term of Escrow Agreement. This Escrow Agreement shall remain in full force and effect until the Escrow Agent has received any one of the following: (a) application in accordance with this Escrow Agreement requesting the release of the Kentucky-American Deed, which application and accompanying certification is not disputed by Kentucky-American in writing; or (b) consistent joint instructions signed by Kentucky-American and LFUCG terminating the Escrow Agreement, or (c) a certified copy of a final judgment of a court, as set forth in Section 5G above, terminating the Escrow Agreement.

10. Paragraphs and Sections. The headings used in this Escrow Agreement are inserted solely for convenience of reference and are not a part of, nor intended to govern, limit or aid in the construction of any term or provision hereof.

11. Governing Law. This Escrow Agreement shall be construed and enforced in accordance with the laws of the Commonwealth of Kentucky.

12. Entire Agreement. This Escrow Agreement constitutes the entire agreement between Kentucky-American, LFUCG, and the Escrow Agent, with respect to the subject matter hereof, and supersedes all prior or contemporaneous agreements, representations and understandings of the parties hereto.

13. Fees and Expenses of Escrow Agent. Except as otherwise provided for herein with respect to cost and expenses incurred in connection with a dispute, Kentucky-American has agreed to pay the reasonable fees and expenses charged by Escrow Agent in the administration of this Escrow Agreement and the recording fee for the Kentucky-American Deed.

IN WITNESS WHEREOF, the parties hereto have executed this Escrow Agreement as of the day and year first above written.

**KENTUCKY-AMERICAN WATER
COMPANY, a Kentucky corporation**

BY: _____

ITS: _____

"Kentucky-American"

**LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT**, an urban-county
government organized and existing
pursuant to Kentucky Revised Statutes
Chapter 67A

BY: _____

ITS: _____

"LFUCG"

FIFTH THIRD BANK, a Michigan
banking corporation

BY: _____

ITS: _____
"ESCROW AGENT"

DATABASE

7/20 6/1/05

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PUBLIC SERVICE COMMISSION STAFF COORDINATION SHEET

CASE NO. **2004-00508**

ORDER DUE:

CASE STYLE: **App of Verizon: CPCN**

6/1/05

TEAM LEADER:

ORDER DRAWN BY: **Wright**

FIRST CIRCULATION

STAFF APPROVAL: Route to Staff Marked

REMARKS

Financial An.-R.Req.	_____	Date	_____	<i>Must be used 6/1; Cancels 4/2 FC</i>
Rate Design	_____	Date	_____	
Consumer Services	_____	Date	_____	
Engineering	_____	Date	_____	
Research	_____	Date	_____	
Tariff Branch	_____	Date	_____	
Hearing Officer	_____	Date	_____	
<i>X</i> General Counsel	<i>WV 6/1/05</i>	Date	<i>6/1/05</i>	
Executive Director	_____	Date	<i>6/1</i>	
Editor	<i>WV</i>	Date	<i>6/1/05</i>	
PSC: Chairman	<i>WV</i>	Date	<i>6/1/05</i>	
Vice Chairman	_____	Date	_____	
Commissioner	_____	Date	_____	

SECOND CIRCULATION (if necessary)

STAFF APPROVAL: Route to Staff Marked

REMARKS

Financial An.-R.Req.	_____	Date	_____
Rate Design	_____	Date	_____
Consumer Services	_____	Date	_____
Engineering	_____	Date	_____
Research	_____	Date	_____
Tariff Branch	_____	Date	_____
Hearing Officer	_____	Date	_____
General Counsel	_____	Date	_____
Executive Director	_____	Date	_____
Editor	_____	Date	_____
PSC: Chairman	_____	Date	_____
Vice Chairman	_____	Date	_____